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SUBJECT: CAN FRANCE CREATE A "MICROSOFT"? GOF CREATES  
(ANOTHER) GOVERNMENT AGENCY TO SPUR INNOVATION

11. (SBU) Summary. With French economic growth slowed and the EU's Lisbon strategy stalled, the GOF is looking for additional ways to promote industrial innovation. Both the Raffarin and now Villepin governments have set an industrial political agenda that has led to reorganization of small government agencies hopefully strengthening the competitiveness of French companies. Existing agencies have been reformed, and the GOF announced the creation by summer 2005 of a new government agency with a two billion dollar budget, to be partially financed by recent privatization revenues. Other GOF measures include increased research spending, a research tax credit, easier credit for SMEs and a strong focus on building public-private partnerships. The efforts are strongly supported by Prime Minister de Villepin and Finance Minister Thierry Breton. The GOF hopes these initiatives, which were developed to fulfill European political goals established by the Lisbon Agenda, will create favorable economic conditions for small and start-up industries as well as for large projects and jumpstart the French economy. End Summary.

12. (U) At the Paris Air Show June 14, Prime Minister de Villepin proclaimed a new role for the GOF in industry. Reflecting French pride at the success of Airbus, he described the government as "a central figure in a network acting to protect, stimulate, and anticipate industry action". Under this new mantra, the new Agency for Industrial Innovation (AII), announced by President Chirac on January 4, will finance "large pioneer projects". Already de Villepin has increased the power of AII by giving the agency 500 million euros from GOF sales of France Telecom shares. He subsequently doubled this initial endowment to one billion euros. This money will be used to support projects in new areas such as solar energy, biofuels, nanotechnology and biotechnology.

AGENCY TO JUMPSTART INNOVATION  
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13. (SBU) The Agency for Industrial Innovation (AII) was developed under the Breton Law (adopted by the National Assembly on June 28, 2005 and currently being debated in the Senate) on the modernization of the French economy. The AII will be composed of thirty professionals working with large industrial groups to identify half a dozen innovative programs. The agency will be only partially financed by revenue from privatizations, specifically France Telecom shares. AII is slated to be up and running by the end of the summer 2005 and will begin its financing operations during the fall of 2005. The GOF provided for an AII working budget of around two billion euros between 2005 and 2007. While the bulk of its grants are expected to be for "large projects", French Finance Minister Breton, inspired by the American Small Business Act, has set a goal to increase small and medium enterprise participation by granting up to that 25% of the AII-financed programs to SMEs.

NEW GOVERNMENT CONTINUES OLD PLAN  
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14. (SBU) In addition to institutionalizing support of industrial innovation, the previous Raffarin government had developed a five-point plan, adopted by his successor Villepin, which emphasizes increased funding for cooperative projects between public and private actors as well as support for of innovative research by large and small businesses alike. This plan originally was designed to serve not only national political economy interests, but also to advance the EU's Lisbon Agenda objectives in France (including increasing investment to assure innovation and competitiveness.) The creation of AII constitutes one goal of the plan. An additional aspect is an Innovation Plan allowing tax breaks for research. Under this banner, the GOF also conceived the tax status "young, innovative enterprise" (JEI) to provide tax breaks and exemption from employer's contributions to qualified businesses.

15. (SBU) Another point of the GOF's industrial innovation

plan is the identification of "poles of competitiveness". This appellation denotes a geographic grouping of business, educational and research centers focused on one technological/ scientific domain. These clusters are composed of both private and public entities. They must have shared, concrete projects and potential international visibility. The status provides fiscal advantages in the form of tax breaks and possible subsidies from local communities and EU funds (such as FEDER, FSE, FEOGA and IFOP). As of February 28, 2005 the GOF had officially identified ten such "poles of competitiveness".

#### HELPING OUT THE LITTLE GUYS

16. (SBU) Other efforts include the GOF establishment on June 29 of OSEO, an umbrella agency to facilitate a closer partnership between the French Innovation Agency (ANVAR) and the Development Bank for Small and Medium Enterprises (BDPME). Whereas AII deals mostly with large-scale research-related projects, OSEO is an umbrella organization specifically created to support SMEs. Through a network of public and private actors, this agency will provide financial support (chiefly at the regional level) to SMEs at crucial moments in enterprise life, including creation and research. At the Paris Air Show in June 2005, Prime Minister de Villepin announced that 350 million euros (mainly resulting from privatization receipts) would also be given to ANVAR in 2005. In 2004, OSEO allotted approximately 260 million euros in assistance for 3,680 innovation projects. In addition, the Innovation Development Contract formulated by OSEO provides for continuing support of inventive research by helping SMEs to commercialize the results of their research.

17. (SBU) Regarding SMEs and the French economy: On June 14, 2005, de Villepin announced that innovation aid managed by ANVAR will be increased by 50% starting in 2006 in order to directly support technology companies. This decision is especially directed at aiding innovative SMEs compete at the same level as large enterprises that will receive AII-sponsorship for technological projects. Parenthetically, a stock exchange, Alternext, devoted to small businesses opened May 17 in Paris.

#### CURRENT LEGISLATIVE EFFORT

18. (SBU) In addition to creating new agencies and classifications, the final point of the GOF industrial innovation plan revolves around a bill (the LOPRI law) on guidance and planning for high-tech research that should entail the formation of a high council for research and innovation (HCRI) and a national research agency (ANR). HCRI will establish a national strategy for public and private sectors including research priorities and recommendations. This council will be composed of ten scientists and ten representatives of what the French call the "socioeconomic sector". Its monthly reports to the Prime Minister will serve as the basis for debate in Parlement. The ANR (successor to the temporary Public Interest Group National Agency of Research, or GIP ANR) will put the national priorities into practice. In effect, the agency will both support and conduct research.

#### CURRENT CORPORATE CLIMATE IN FRANCE

19. (SBU) A study by Comite Richelieu (an association of small French high-tech firms) has shown that globally, new firms (less than twenty years old) are behind most economic growth. Traditionally, small and medium enterprises have not received visible support from the French government or its principal institutions, limiting their possibilities for growth. Large, "low-tech" companies in traditional sectors dominate the economic landscape, and receive greater attention from the GOF. The lack of new firms on the French business scene poses potential barriers to economic growth and creation of new employment. A recent survey by French umbrella organization OSEO reports that while French SMEs may have innovative ideas, they do not possess the means to put them into practice.

10. (SBU) COMMENT: The government's strategy, while culled largely from its predecessor's efforts, announces a clear strengthening of French industrial policy--with a slightly different take. The chief goal is to make the French economy and French enterprises more innovative by supporting industrial projects in the economic "sectors of the future" in France. Through a combination of initiatives promoting innovation within both large business groups and small enterprises, the GOF hopes to encourage hiring, expansion of business, increased exports and development and commercialization of new technology. Unlike the heyday of the French-style planned economy, this new industrial policy does not look to promote the French government's direct management of the economy. Rather, the government is striving to create favorable economic conditions for industrial innovation. While many of the measures have been

publicized recently, most of them have been on the drawing board for over a year. It is unlikely that Prime Minister Villepin is counting on them to stimulate the economy in the next 100 days.

STAPLETON